

## Message Text

LIMITED OFFICIAL USE

PAGE 01 STATE 218260

62

ORIGIN EB-07

INFO OCT-01 EUR-12 ISO-00 TRSE-00 FEA-01 COME-00 CEA-01

AID-05 CIAE-00 EA-07 FRB-03 INR-07 IO-13 NEA-10

NSAE-00 USIA-06 OPIC-03 SP-02 CIEP-01 LAB-04 SIL-01

OMB-01 ERDA-05 DODE-00 FPC-01 H-02 INT-05 L-03 NSC-05

PM-04 SAM-01 OES-06 SS-15 STR-04 ACDA-07 /143 R

DRAFTED BY EB/ORF/FSE:WMILAM:KG

APPROVED BY EB/ORF/FSE:RRMARTIN

TREASURY:ABAKER

FEA:JTREAT

COMMERCE:LBLEY (SUBS)

CEA: PVERLEGER (INFO)

EB/ORF/FSE:MVCREEKMORE

EUR/RPE:ADSENS

----- 096876

P 022238Z SEP 76

FM SECSTATE WASHDC

TO USMISSION OECD PARIS PRIORITY

LIMITED OFFICIAL USE STATE 218260

E.O. 11652: GDS

TAGS: ENRG

SUBJECT:CIEC: BURROWS GROUP MEETING OF SEPTEMBER 9;  
US COMMENTS ON PAPER SEVEN, THE PURCHASING POWER OF  
ENERGY EXPORT EARNINGS

1. REVISED PAPERS FOR BURROWS GROUP MEETING RECEIVED  
ON AUGUST 27. THUS WE WERE NOT ABLE TO REACT TO PAPER  
NUMBER SEVEN BY SEPTEMBER 1 AS REQUESTED IN COVERING  
LETTER. OUR COMMENTS ON THIS PAPER ARE IN THE FOLLOWING  
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 STATE 218260

PARAGRAPHS BY TOPIC HEADINGS.

2. THE G-19 ARGUMENT. WE HAVE NO OBJECTIONS TO THIS SECTION AND NO SUGGESTED LANGUAGE CHANGES. HOWEVER WE FEEL THE SECTION WOULD MORE CLOSELY RESEMBLE THE G-19 ARGUMENT IF THE SOVEREIGNTY POINT OF THE FIRST SENTENCE CAME AT THE CONCLUSION OF THE FIRST PARAGRAPH, AND THE ARGUMENT BEGAN WITH THE INFLATION POINT OF THE THIRD SENTENCE. THE SECOND SENTENCE IS UNNECESSARY AS THE SAME POINT IS MADE IN THE SEVENTH SENTENCE (BEGINNING 8 LINES FROM BOTTOM OF PARA 1).

3. ASCERTAINABLE FACTS.

(A) WE BELIEVE THIS SECTION SHOULD BEGIN WITH FOLLOWING LANGUAGE WHICH WOULD BE PARA 3 OF PAPER.

QUOTE: THE G-19 HAS PUT FORWARD NO IDEA OF HOW TO PROTECT THE UNIT VALUE PURCHASING POWER OF EXPORTS OTHER THAN BY INDEXATION. END QUOTE.

(B) WE BELIEVE THAT THE PRIMARY FACT ABOUT INDEXATION IS ITS ADVERSE ECONOMIC CONSEQUENCES. THUS NEW PARA 4 OF PAPER SHOULD CONTAIN ARGUMENTS FOUND IN PRESENT PARA 5, IN SOMEWHAT EXPANDED FORM. WE SUGGEST FOLLOWING LANGUAGE FOR NEW PARA 4.

QUOTE: ECONOMISTS IN INDUSTRIALIZED COUNTRIES GENERALLY AGREE THAT INDEXATION HAS ADVERSE ECONOMIC IMPLICATIONS, NOT ONLY FOR INDUSTRIAL COUNTRIES, BUT FOR THE WORLD IN GENERAL FOR THE FOLLOWING REASONS:

(I) FREEZING THE PRICE OF ANY COMMODITY SUCH AS OIL RELATIVE TO THE PRICE OF OTHER GOODS AND SERVICES DISTORTS RESOURCE ALLOCATION AS IT LEADS TO RIGIDITIES IN PRODUCTION, CONSUMPTION AND INVESTMENT PATTERNS. THIS RESULTS IN EXCESS SUPPLIES OR SHORTAGES AND HENCE A REDUCTION IN WORLD ECONOMIC WELFARE. IF INDEXATION WERE TO LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 STATE 218260

MAINTAIN OR RESULT IN OIL PRICES HIGHER THAN THE LEVEL THAT WOULD BE WARRANTED BY UNDERLYING SUPPLY AND DEMAND CONDITIONS (WHICH SEEMS MOST LIKELY) THIS COULD RETARD THE GROWTH OF THE WORLD OIL MARKET AND INDUCE THE PREMATURE DEVELOPMENT OF COSTLY ALTERNATIVE ENERGY SOURCES TO THE LONG RUN DETRIMENT OF THE ECONOMIES OF THE OIL PRODUCERS AS WELL AS THE WORLD ECONOMY.

(II) INDEXATION WOULD SERIOUSLY INCREASE THE VULNERABILITY OF THE WORLD ECONOMY TO INFLATIONARY FORCES AND HELP TO PERPETUATE INFLATIONARY SPIRALS. TO THE EXTENT THAT INFLATIONARY PRESSURES ARE GENERATED WHICH WOULD REQUIRE RESTRICTIVE POLICIES IN THE INDUSTRIAL COUNTRIES, GROWTH WOULD BE SLOWED; THIS WOULD SLOW THE GROWTH OF THE MAJOR MARKETS OF BOTH OIL EXPORTING DEVELOPING COUNTRIES AND NON-OIL LDCS, THUS INDIRECTLY REDUCING THEIR GROWTH.

(III) IT WOULD ESTABLISH A PRECEDENT WHICH, IF APPLIED TO OTHER COMMODITIES, WOULD LEAD TO A FURTHER MISALLOCATION OF RESOURCES AND INCREASED VULNERABILITY OF THE WORLD ECONOMY TO INFLATIONARY FORCES;

(IV) AS A MEANS OF TRANSFERRING RESOURCES TO THE DEVELOPING COUNTRIES, INDEXATION OF COMMODITY PRICES WOULD BE INEFFICIENT AND INEQUITABLE. INsofar AS SUCH TRANSFER IS JUSTIFIED, OTHER MEASURES SHOULD BE FOUND FOR THAT PURPOSE.

THE CASE FOR INDEXATION IS ALSO QUESTIONABLE BECAUSE THERE IS CONSIDERABLE AMBIGUITY AND DEBATE TO THE ARGUMENT ABOUT WHETHER THE TERMS OF TRADE OF OIL PRODUCERS AND OF DEVELOPING COUNTRIES IN GENERAL, HAVE DETERIORATED. (SEE ANNEX). END QUOTE.

(C) FOLLOWING LANGUAGE CHANGE SUGGESTED FOR SUB-PARA (B) OF PRESENT PARA 3, WHICH WOULD BE NEW PARA 5.

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 04 STATE 218260

QUOTE: PROBLEMS OF USING UNIT VALUE INDICES TO MEASURE OPEC IMPORT PRICES OR OECD EXPORT PRICES (IF THESE ARE USED AS A PROXY) AND OF DETERMINING A BASE YEAR AND TIME SERIES LENGTH. END QUOTE.

(D) WE HAVE NO PROBLEMS WITH REST OF PRESENT PARA 3 (SUGGESTED NEW PARA 5).

(E) WE SUGGEST ADDITION OF THE FOLLOWING SENTENCE AT THE END OF PRESENT PARA 4(WOULD BE PARA 6 IN REVISION).

QUOTE: IN ADDITION, THE FIVEFOLD INCREASE IN THE PRICE OF OIL OVER THE PAST THREE YEARS SUBSTANTIALLY CONTRIBUTED TO HIGHER IMPORT PRICES FOR OPEC IN ITS EFFECT ON THE PRICE OF GOODS WHICH REQUIRE OIL OR A SIGNIFICANT ENERGY

INPUT IN THE PRODUCTION PROCESS OR FOR TRANSPORTATION.  
END QUOTE.

4. IMPONDERABLES. WE HAVE NO PROBLEMS WITH THIS  
SESSION. (PARAS WOULD NEED TO BE RENUMBERED.)

5. CONCLUSION.

(A) WE SUGGEST THAT PRESENT SUBPARAS (V) AND (VI)  
OF PARA 9 BE MOVED TO BEGINNING OF THAT PARA AND  
BE NEW SUBPARAS (I) AND (II). THIS WOULD REFLECT

IMPORTANCE OF ECONOMIC ARGUMENTS AGAINST INDEXATION.  
THESE SHOULD BE FOLLOWED BY PRESENT SUBPARAS  
(III) AND (IV). PRESENT SUBPARAS (I) AND (II)  
SHOULD BECOME NEW SUBPARAS (V) AND (VI).

(B) WE PREFER FOLLOWING LANGUAGE BE SUBSTITUTED  
IN PRESENT SUBPARA (I) (NEW SUBPARA (VI)).

QUOTE: THE PURCHASING POWER OF ENERGY EXPORT  
EARNINGS IS AN APPROPRIATE TOPIC FOR DISCUSSION  
IN THE CIEC ENERGY COMMISSION. END QUOTE.

(C) WE HAVE NO PROBLEMS WITH LANGUAGE IN REST OF  
PRESENT PARA 9 (WHICH WOULD BE PARA 10 IN  
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 05 STATE 218260

REVISION). KISSINGER

LIMITED OFFICIAL USE

NNN

## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** PROCUREMENT, ENERGY, EXPORTS, COMMITTEE MEETINGS, BRIEFING MATERIALS, EARNINGS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 02 SEP 1976  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** BoyleJA  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1976STATE218260  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** WMILAM:KG  
**Enclosure:** DG ALTERED  
**Executive Order:** N/A  
**Errors:** N/A  
**Film Number:** D760334-0548  
**From:** STATE  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1976/newtext/t19760995/aaaadeav.tel  
**Line Count:** 202  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ORIGIN EB  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 4  
**Previous Channel Indicators:** n/a  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** n/a  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** BoyleJA  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 20 APR 2004  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <20 APR 2004 by CollinP0>; APPROVED <13 AUG 2004 by BoyleJA>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
04 MAY 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** CIEC: BURROWS GROUP MEETING OF SEPTEMBER 9; US COMMENTS ON PAPER SEVEN, THE PURCHASING POWER OF ENERGY  
EXPORT EARNINGS  
**TAGS:** ENRG  
**To:** OECD PARIS  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006